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BRIEF

PRESENTED BY

THE SASKATCHEWAN URBAN MUNICIPALITIES ASSOCIATION

TO

LOCAL GOVERNMENT FINANCE COMMISSION

ON THE MATTER OF

PROVINCIAL-LOCAL GOVERNMENT FISCAL RELATIONS

SEPTEMBER 1984

Mr. Chairman and Members of the Commission:

INTRODUCTION

One hundred and one years ago the Government of the day, by legislation, established local government in what is now the Province of Saskatchewan. In doing so, they were following the pattern set by older, established provinces albeit with variations suitable to the needs of this part of Canada. Nevertheless the general benefits were deemed to be the same as have been experienced elsewhere - namely the insight to guage local needs and the accessibility to local law makers by their constituents. On a broad basis some services provided are of necessity common to all, while others are of a discretionary nature. Even in the field of those common to all, local authorities had and have certain discretionary powers as to the quality and/or quantity of service provided. For example - shall the road be paved, oiled or gravelled, shall the library be open six hours or four, shall the fire brigade be volunteer or fully professional.

The provision of services entails the expenditure of monies. An early question therefore was, what source of revenue could be allocated to municipalities to enable them to carry out their responsibilities. The government chose to assign the assessed value of real property as the base against which a levy could be assessed by the local authority to raise the necessary revenues. This basis, then, has been used over many years to provide municipalities with their major revenues.

There are other "own-source" revenues, of course, raised through various fines, licenses, fees and business taxes. While these revenues can be substantial the major contributor to the overall revenue picture is the property tax.

Two of the difficulties with using the assessed value of property is one - in finding a fair basis for valuation of property in comparison with other properties, both within the municipality and in sister municipal jurisdictions; and two - maintaining the assessed value at a relatively current level. Further, property value, while to some degree responsive to economic changes, is not as quick to respond, and even if it is, we do not seem to have reached a degree of sophistication in the valuation system to record that response as quickly as desirable. Certainly other forms of taxation, which are not available to local governments, do respond more readily and quickly to economic changes. This then puts local government in a continuing "catch-up" position as costs of operation escalate much more rapidly than our ability to raise revenue.

We must therefore look at all alternatives for financing local government so that in today's economic atmosphere, we are able to respond to the requirements in a reasonable time frame.

Having said that we must always be conscious of the necessity of monitoring our costs and indeed reviewing the projects, programs and services we provide in order to make sure we are giving the best value possible for the tax dollar collected.

We do therefore welcome this opportunity to express our views on this very vital issue and wish you well in your deliberations over the vast amount of material and comment that you will receive.

THE ASSOCIATION

The Saskatchewan Urban Municipalities Association has as its membership over 470 of the approximate 530 urban communities throughout the Province. This membership includes all cities, large and small, all towns, a large majority of the villages, resort villages and about 40% of the Northern municipalities, which municipalities have come under the jurisdiction of Urban Affairs since the proclamation of the Northern Municipalities Act.

The objectives of an Association like ours include mainly the presentation of opinion, positions on matters concerning local government, current developments in local government thinking, reactions to steps taken by the Provincial government on issues and suggestions for changes to legislation and Provincial/Municipal fiscal relationships. Another objective is to promote amongst our member municipalities good management and personnel practices in an endeavour to achieve more efficient operation in the provision of services to the citizens of our communities.

A further object of our Association is to provide services to our member communities. Such services as provision of a group insurance and benefits program, a

general insurance program and a labour relations service, to mention a few.

We also provide the opportunity through the organizing of Regional meetings and Annual Conventions for all communities to raise issues for discussion and the development of consensus so that the message can be brought forward to the Provincial government.

RESPONSIBILITIES

Before proceeding with this presentation, our first step must be to identify the responsibilities, as we see them, of our two levels of government - Provincial and Municipal.

Provincial

It is not our intention to go into great detail in regard to these areas of responsibility, but simply to identify them. The list may not necessarily be complete but substantially covers the main concerns. Also we recognize that there are some areas where there will be an overlap and that responsibilities may be shared. However, we also recognize that a high level of co-operation is required between the governments in fulfilling those areas of shared responsibility.

Fundamentally the Province is responsible for provision of:

Health Care System	- Medical - Hospital - Personal Care
Education	- Primary - Secondary - Post Secondary

Law	- Enforcement - Judiciary
Agriculture	- Programs - Marketing
Highways, Transportation, Communication	
Social Services	- Programs - Housing
Financial Management	- Revenues - Expenditures
Economic Development	- Business - Tourism
Labour	- Law - Guidance - Compensation
Energy and Natural Resources, Water Resources	
Municipal Affairs	- Urban - Rural
Provincial Parks	- Culture - Recreation
Environmental Protection	- Land Use - Water Management - Pollution Control
Intergovernmental Relations	
Consumer Protection	
Public Works	
General Government and Electoral Process	

Municipal

The following list is a little more detailed than the Provincial one because of greater familiarity on our part with the local government scene. Again, while it is intended to be as complete as possible, there could be some omissions, albeit, not intentional.

These are what we deem to be local municipal government responsibilities within their respective jurisdictions:

Planning - Fiscal
- Physical - Development plans
- Development management
- Development agreements
- Zoning
- District planning
- Rail relocation

Public Works & Engineering - Roads, Curb and Gutter Sidewalks
- Construction
- Repair
- Sweeping
- Snow clearing
- Dust control - oiling
- Bridges
- Garbage Removal
- Pick-up
- Disposal - nuisance grounds
- Weed control
- Pest control
- Water
- Supply - source - wells
- Distribution
- Lines - Mains - Laterals - Connections
- Reservoirs
- Purification
- Pumping stations
- Sewage
- Lines - Connections - Interceptors
- Lift stations
- Lagoons
- Treatment plants
- Effluent disposal
- Public Buildings
- City, Town, Village Halls
- Police Station - equipment
- Fire Station - equipment
- Public Works Building and equipment
- Sports buildings
- Library buildings
- Community halls
- Parking lots - parking meters
- Mapping

Safety
- Street and traffic signs
- Traffic control
- Street lighting
- Police - Commission
- Fire protection - rescue
- Emergency Measures
- Animal control
- Pound

Finance and Administration
- Management - Budget
- Tax roll
- Assessment
- Tax imposition
- Tax collection and enforcement
- Accounting - record keeping
- Purchasing
- Legal - By-laws, contracts, agreements, titles, subdivisions,
  - Prosecutions - Expropriation
- Clerk department - Minutes
  - Records-retention - destruction
- Personnel - training
- Public relations and information

Property
- Purchases - Sales - Management - R.O.W.

Recreation
- Open space - local
  - regional
- Parks - Acquisition, maintenance, nursery, tree planting and maintenance spraying
- Boulevards
- River Banks
- Mosquito control
- Recreation programs
- Facilities - Rinks, hockey, skating, curling
  - Swimming pools
  - Golf courses
  - Tennis courts
  - Ball diamonds
  - Cemetery
  - Community clubs

Cultural
- Library
- Theatre facilities
- Programming
- Crafts - Senior Citizens

Environment
Control - details included under other headings

Public Transportation
- Transit - Equipment
  - Buildings
  - Programs - Senior Citizens
    - Disabled
- Taxi control
- Airport
- Marina

Utilities
- Electric - distribution
- Water - supply and distribution
- Sewer - collection and disposal
- Rates - Billing - Collection enforcement

General Government
- Mayor and Council

Co-operation with the Province to help deliver some services - health, social assistance

This will give you some idea of the vastness of the mandate with which urban government is charged in serving the needs of the community. There is a little bit of everything and expectations continue to grow. In the meanwhile, there has been no change with respect to the one major revenue producing source for local government.

The Province has recognized over the years the dilemma that municipalities have faced and have introduced programs of financial support in an endeavour to ease the problem. However, the question is - "Is this the right approach or are there alternatives that might be better?" We hope from these discussions and your deliberations the answer will be found.

ASSESSMENT

We should like first to address ourselves to the matter of property assessment. Municipal government has the responsibility for determining an assessed value of property and buildings within its jurisdiction. Currently only two municipalities, Regina and Saskatoon, do their own assessing, the remainder obtain the service from the Provincial Assessment Authority. However many difficulties have been encountered over the years in maintaining consistency, currency and equity under the present system.

This Association is anxious to improve the system. It has been, and still is, our contention that the Assessment function should be brought under the jurisdiction of some form of local government authority. The reasons we believe that this would be more effective are:

a) The Board responsible for making policy about assessment would consist of people from the local level who, we believe, would have a better feeling for and understanding of local situations.

b) Establishment of Assessment manuals which guide the determination of assessed values would recognize the local factors much more readily and would provide for more consistent assessing techniques.

c) The whole practice of determining assessed value of buildings and property is particularly vital to local government as it forms the tax base for the one major source of tax revenue available to local

government. It is imperative that assessment be done equitably and consistently to ensure fairness amongst property owners. It is also extremely important that assessments be done within reasonable time frames so that the tax base is reflective of current economic conditions.

d) Because assessment is so important to local government the performance of the function would be of a much higher priority to local government than it is under the present provincial authority. Local authorities would have to commit themselves to ensuring that this function is of such a high priority that provision would be made of sufficient resources to do the job including local resources.

e) If the objective of currency and consistency (application of a common set of agreed upon factors) is achieved, and we believe it can be, then the matter of equity as between rural and urban jurisdictions and between classes of property within jurisdictions will be substantially achieved. This would ensure fairness in the determination of the major tax base available to local government. A tax base which we, incidentally, think is a good basis for the raising of revenues to provide services to property.

We have been actively pursuing this issue with the government for some time, and it is our immediate intention to renew and pursue the matter much more vigorously with our Minister.

REVENUE SHARING - OPERATIONAL

It has long been recognized that municipal government has not been able to meet its responsibilities out of property tax revenue alone. This has been caused substantially, we believe, by too many at the trough of property tax. Most notably education services, health services, library services and social services.

This Province, a number of years ago, recognized the need to assume financial responsibility for social services and did indeed take over that responsibility, charging only a small levy to municipalities. However, the others still remain.

Because of this, a system of grants has been developed whereby the Province shares some of its revenue with the local government in order to assist in the delivery of service. Our revenue sharing program is substantially a transfer of funds on an unconditional basis which makes it, for the most part, an acceptable system. In a number of cases insofar as urban government is concerned, these grants are providing close to 80% of the total local revenue requirements while, at the same time, the tax base of those communities is being tapped to support other services that are not the responsibility of the municipal government.

For most communities the grants provide substantial revenue but our major source is still property tax. Nevertheless, we rely heavily on those revenue transfers from the Province.

In a study and report done by this Association two years ago, the conclusions reached were that financial support for other services, ie: health and education most notably, should be removed from the property tax base. See SUMA Recommendations for Local Government Financing in Saskatchewan - Executive Summary #2(a),(b),(c) and #12. Appendix I. SUMA and SARM have prepared a joint presentation relative to the "Removal of Cost of Education from the Property Tax Base". Appendix II.

We have not as yet had the opportunity to make the presentation of that brief to the Provincial Cabinet. It is our hope that by including it as a part of this brief, we shall be able to engage in full discussion of the matters raised. We have endeavoured to set out reasons why we believe that education costs should be removed from the property tax base; alternative sources of revenue that might be considered for financing education; benefits to be derived resulting from changes being made in the current system of education financing.

As was mentioned previously, this Association represents municipalities of varying sizes and character. To repeat - Cities, large and small, Towns, Villages, Resort Villages and Northern Municipalities. The Province has already noted a

difference in communities by implementing a different revenue sharing program for Northern Municipalities and Rural Municipalities, than that which is in effect, for Cities, Towns, Villages and Resort Villages. The grant system for these is substantially the same regardless of size.

This has an advantage of simplicity for understanding because the formulae are all the same. However, does it really meet the needs and does it recognize the complexity of problems for some communities? Particularly those with a very low property tax base of their own. To some degree through the equalization formula in the revenue sharing program, this problem is addressed. However, it is not enough. Also, the question of high growth population centres is not adequately dealt with by the revenue sharing distribution formula unless someone is prepared to take the bit in their teeth and implement an annual census taking. If we do so, we may finally come to grips with the question of the survival of some small "urban" units as separate municipal corporate entities.

Our joint proposal under the "Education Costs" brief; Appendix II; raises the question as to how to equalize revenues across the Province between the more prosperous and less prosperous municipalities. The degree of prosperity would be determined by the Assessment values of property. A scheme, administered by the Province, would be to levy a mill rate across the Province on a standardized assessment and redistribute the proceeds back to the municipalities on some

sound basis that would ensure that the less prosperous communities would receive sufficient revenues that, together with local revenues, would enable them to meet their responsibilities. This, of course, would represent revenue sharing on an inter-municipal basis.

We would, of course, insist that no property be exempt from local taxation. Any abatement of taxation must be solely at the discretion of the local Council and then disbursed on a grant basis.

Where Crown properties are involved and cannot be made subject to local taxation, a "Grants-in-Lieu" act should be put in place giving authority for the payment of grants equivalent to what the property taxes should be.

The suggestion put forward in the joint brief of using "a percentage of basic income" approach to raising revenues for education is one that we believe deserves thorough consideration, study and discussion. We, as an Association, support the concept as a logical approach to the "ability to pay" principle in support of the education system. A principle that makes eminent sense to us in supporting education, a service from which we all benefit.

REVENUE SHARING - ALTERNATIVE

As an alternative to the present concept of revenue sharing, we must consider the possibility of opening other avenues of taxation to municipalities which are currently exclusively available to the Provincial and/or Federal governments.

In the mid 1970's the Federal, Provincial and Municipal governments participated in a Tri-Level Task Force on Public Finance in Canada. Their report was issued in early 1976 giving a great deal of information compiled by the Task Force which established a commonly accepted data base from which each level of government could draw their own conclusions.

The Federation of Canadian Municipalities, after study, produced a document entitled "Puppets on a Shoestring". The following quotations are taken from that document.

> "Grants from provincial and federal governments come with so many strings attached and represent such a large part of municipal budgets that municipalities are becoming puppets in a show run mainly by provincial governments." and

> "The Tri-Level Report shows clearly that Canada's system of public finance generates enough money to satisfy the needs of all three levels of government." and

"In other words, the Tri-Level Report shows that Government, as a whole in Canada, has generally operated in the black, on a balanced budget for the past quarter-century. The country is rich. Its public finance system produces enough money to meet public demands." and

"While balancing handily for the three governments, the system denies municipalities access to tax revenues that would allow them to meet their responsibilities." and

"We want a municipal government that is much more free of "conditional" provincial grants and that has direct access to a wider range of tax revenues." and

"The essential problem is that the revenue base of municipalities in Canada did not expand to meet the demands put upon it by urbanization."

Mr. Chairman, I think you will see from these quotations, albeit made in 1978 based on data up to 1975, that Municipal government, not only in this Province, but also those in other provinces, face the same dilemma: demand for services without an adequate tax base to enable it to raise the revenues necessary to meet those demands.

We would, therefore, humbly suggest that the alternative of broadening the tax base be given serious consideration.

This course might be considered, by itself, as a complete alternative or might be thought of in conjunction with the removal of Education costs from the property tax base.

A study commissioned by the Alberta Urban Municipalities Association done by Dr. Dick Plain and Dr. Mel McMillan, has put forward a suggestion that it is quite feasible for Municipalities to levy an income tax. Appendix III, Page 11 of "Summary of Recommendations" PR 4 'Implementation of a Local Income Tax'. This area of revenue availability would certainly give a much broader revenue base to Municipalities.

We believe that the possibility of local government being able to impose a tax on motive fuels has great merit in terms of revenue source to support the road system in our communities.

It is recognized that there are many small communities that, in themselves, would probably not generate sufficient revenues from these other sources. However, we should not rule out a regional approach to the concept in judging the merits of the suggestion.

We do not choose to go into great detail in this brief, but rather to raise the issue as a matter of principle for discussion.

VARIABLE MILL RATES

We have not experienced much support for the introduction of the concept of variable mill rates. As we understand it, such a practice would be limited to varying mill rates for municipal purposes between different classes of property, ie: Residential, Commercial and Industrial.

In view of the fact that there has been some suggestion that business tax should be discontinued, there would be a serious loss of revenue to the municipalities which would have to be made up somehow if this should occur. The basis for a business tax levy in the initial instance is that municipalities have to provide services to business that are above and beyond the standard level of service. Such things as extra policing, additional garbage removal, fire safety inspection and snow clearing to name some.

The determination of business assessment and the tax levy is not consistent among municipalities and therefore business is treated differently from one community to another.

If the whole system of assessment including property and business can be straightened out and brought up to currency, consistency and equity then the principle of variable mill rates might be a reasonable alternative to consider. It is true that in the assessment function the land use is an important factor in determining the assessed value of property. Nevertheless, municipalities may want to consider, on a permissive basis, the use of the variable mill rate as a

means of raising the revenue required to provide those "above standard" services to business and most particularly to industry.

We believe no stone should be left unturned in the search for a system that will provide municipalities with sufficient resources to help them meet their responsibilities.

REVENUE SHARING - CAPITAL

Our Association has long been concerned that municipalities have had considerable difficulty in mustering sufficient resources in order to carry out their public works. It is in the area of capital funding where we require support from both the Provincial and Federal orders of government.

A report done for the Federation of Canadian Municipalities by a Task Force on Municipal Infrastructure submitted in June of this year, identifies what is happening to the Municipal Infrastructure in our communities right across Canada. Appendix IV.

Communities in Saskatchewan are no exception. In a survey which we carried out in the spring of 1984, our findings indicated a continuing requirement of some substance for capital dollar financing to assist in carrying out the necessary works.

This survey identified requirements primarily for new capital works. However, there is equally as great a need to restore and improve already existing infrastructure,

particularly in the larger communities containing considerably older urban sections established many years ago.

The FCM "Puppets on a Shoestring" states that as a result of the depression of the 1930's "Many cities were forced to postpone necessary expenditures for much-needed public works." and

> "Post-war priorities reflected provincial and federal goals: reconstruction, economic development and social security. Expenditures to achieve these objectives were considered essential to prevent the return of depression." and
>
> "The explosive growth of our cities and towns, combined with the backlog of public works expenditures, accumulated during the thirties and the war destroyed the ability of the municipal financial base to carry this load. Continuing inflation multiplied the costs of providing public services."

Municipal infrastructure does deteriorate and require not only renewal but also expansion. This takes a tremendous number of capital dollars to achieve. Municipalities are hard-pressed with their limited resources to meet those needs. Our smaller communities throughout the Province that built water and sewer systems in the last 25 years in order to make them better places in which to live, face the spectre even now of having to replace and/or expand those systems. So it is not only the larger communities that must come to

grips with the problem. As a matter of fact, the smaller communities have perhaps an even greater problem than the large community. A half-a-mile of water line costs just as much, if not more, to build in the smaller community which has less resources to pay for it.

If we are to maintain and enhance the quality of life in our smaller communities, we must provide the necessary services that contribute to that enhancement. Only in this way can we hope to maintain our population throughout the Province in their own communities.

The present capital support program has been and continues to be a tremendously beneficial program to our municipalities. We are fast approaching the end of the term for this program, the second of its kind in the past eleven years. It is vital to our communities that this, or some similar program, be continued and be in effect as of the 1985-86 fiscal year.

We endorse the principle of communities putting up a percentage of the dollars for a project, although this does create some problems for communities in raising their portion. Projects get delayed for that reason which means, that by the time they are able to draw their allotment, the value of the dollar has been decreased and the cost of the project has increased. It is because of this, that if the program is to continue in its present form, serious consideration has to be given to the principle of indexing the base annual amount.

The rules of qualification under the present program have been good, approvals have been readily forthcoming, but payouts have been, on occasion, slow causing some additional financing costs.

We would sincerely suggest consideration of a program that includes indexing of the base per capita amount and an unlimited term.

It is our sincere belief that the Province has to look at their on-going support of municipal capital programs as an investment in the overall infrastructure of Saskatchewan and not as an expense to be tolerated from year to year. If the Provincial government is sincerely interested in maintaining and improving our municipalities throughout the Province, then they must make a long term commitment to the support of the growth and replacement of the community infrastructure. One of the problems that inhibits our municipalities in their planning, particularly the larger ones, is the lack of long term capital financial support commitment by the Province. We must try to remove this difficult problem by introducing the program on an unlimited basis.

A matter of some concern related to conditional capital support programs is in respect to the conditionality itself. The Province makes funds available for projects that it specifies and in order for a municipality to qualify, it must undertake those projects whether or not they are priorities of the municipality. If municipalities don't make use of the funds in a specific year, the funds are lost to them even

though their needs in other areas of expenditure are great. Appendix V. This is particularly true with respect to the "Urban Assistance" grant. The principle of making those funds available to municipalities is commendable but the conditionality is not.

When the Province commits itself through the annual budget to make support available to local government, it should, in fact, make the funds available to meet the local priorities and not necessarily those of the Province. If the Province believes that it must maintain some measure of conditionality, then it should advance the funds to the municipalities each year to be held by them "in-trust" for the specified projects to be expended on those projects at the discretion of the municipality.

A principle of making it mandatory for municipalities to establish a "Capital Trust Fund" approach to accumulating their own funds toward capital projects should be implemented.

Both the Provincial and the Federal governments, from time to time over the years, have introduced capital support programs which they have used to stimulate economic growth and job creation. Municipalities are the financial benefactors of such programs, but they are not the architects of the projects to be undertaken under such programs. We get the feeling sometimes that we are being used as tools of those governments to achieve their purposes.

We sincerely believe that firm, on-going capital support programs with substantial funding on an unconditional basis available through the other levels of government to local government, will better serve those objectives of economic growth and job creation and will allow the municipalities to set their own priorities in the continuous planning of programs to meet the needs of our communities.

Again, we have to recognize the differences of size of the urban communities and design programs to fit the needs. We shouldn't always be too quick to introduce a single universal program in an attempt to solve the problems of all communities regardless of their size and/or needs.

To sum up with respect to the revenue sharing or Provincial-Municipal fiscal relationship, we believe there is a need for revamping that relationship insofar as operational funding is concerned and further there is a definite need for a continuance and expansion of support for capital funding purposes.

REBATE SYSTEM

A number of different reasons have been given for the introduction of a property tax rebate practice. It obviously holds some attraction for it exists in most provinces, if not all, in Canada in varying forms.

In Saskatchewan, of course, it is known as the "Property Improvement Grant" which would lead one to believe that it was intended to assist property owners who improve their property. In more recent times it is thought of more as an

assistance to property owners against the substantial burden of taxation arising from education costs. Some people regard it as a good collection device. One of the more fundamental reasons perhaps is that it is a mechanism for relieving the tax burden on some property owners without relieving all property owners. That is, regardless of how many properties one owns, individually or corporately, or the magnitude of the taxes paid on those properties, the property owner can only claim a rebate on one property and up to a maximum number of dollars. This way, the majority of property owners, including senior citizens, can be relieved to some degree of the high cost of property taxation whereas the individual multiple property owner and the industrial taxpayer, while claiming <u>one</u> rebate, does not receive the same relief in percentage terms, from overall taxation cost.

The very fact of the implementation of a rebate system at all would seem to indicate that the Province believes the incidence of property taxation is too high.

We, as an Association, adhere to the principle that local government should not be called on to levy a tax and then have the Provincial government pay a rebate to the taxpayers on the apparent basis of refunding an overcharge of taxes imposed by the local government. Certainly the system seems to imply that the local government has overcharged the taxpayer.

At the least, the rebate should be deducted at source at the time of payment of taxes rather than collected and repaid.

However we continue to hold to the position that the rebate system is not required. If sufficient resources are made available to the local government to meet its needs and education costs removed from property tax, there would be no need for a system of taxation refunds.

Mr. Chairman, there is room for many debates on matters broached by this presentation and many others that will be raised during the course of the Commission's review. We wish to point out once more the diversity of the make-up of the membership of our Association. Their needs and desires are somewhat the same, but as you can appreciate, communities like northern municipalities with their new found municipal status and limited local taxation base; resort villages, feeling the pressures of demands for service from a largely non-resident population; large cities, with their public transportation, policing and social pressures; smaller cities and large towns striving to provide and enhance the attractiveness and lifestyle of their communities; and mid-sized urban communities faced with the cost of providing police protection; villages seeking to survive as corporate entities in order to give their citizens a way of life that they wish to pursue; it is essential for the Province, and indeed the local governments, to recognize their diversities and the individual needs.

It is important in considering solutions and programs to help them meet their needs and with a desire to be fair to all, we must seek universal solutions that will serve the majority of the needs while at the same time address the diversities. In order to allow for such differences of emphasis, Provincial transfers must be made on an unconditional basis. Also, of course, as we consider the fiscal relationship between Province and Municipality, we all have to recognize the inability of some communites to raise sufficient revenue locally by whatever means to meet their requirements.

This then means that some form of equalization has to be determined to allow for a reasonable standard of service to all our communities wherever they are located in the Province.

Further, it requires a high degree of trust between both orders of government that each will do what they are required to do to provide that standard of services.

Mr. Chairman, members of the Commission, we look forward to the discussion on this presentation and to the continued dialogue as you pursue solutions to the very important matter of Provincial-Municipal fiscal relationships.

Thank you for this opportunity.

Ald. H. E. Taylor
President, Saskatchewan Urban
Municipalities Association

September 1984

APPENDIX I

SUMA RECOMMENDATIONS FOR LOCAL GOVERNMENT FINANCING IN SASKATCHEWAN - EXECUTIVE SUMMARY

2.

a) Local urban municipalities relinquish their responsibilities for health funding leaving these to senior governments who now bear about 98% of the total costs. Health related costs like ambulance or local levies should be created similarly so that urban government can move completely away from direct funding. Notwithstanding the relinquishing of funding commitments however, there is still a need for strong local decision making and administrative responsibility.

b) Similarly, any social service related funding such as local per capita levies be terminated. Again there could be a need for some local decision making and administrative responsibility.

c) Where, however, there is a demonstrated need for local government administration of health and/or social services, and if the province requests municipalities to assume certain responsibilities, then we must be emphatic that the necessary provincial funds are made available to local government for this purpose; for example the ambulance program and concerns for the future of the home care program.

12.

Since urban municipalities cannot sustain a high rate of increase in present non-property tax revenues that are required to help support the historic growth rate of urban municipal services, alternative source or sources of revenue must be found or alternatively services must be cut back. We have looked at various other sources for tax revenues, none of which either alone or collectively would produce the required revenues. It is recommended that a logical new municipal revenue source would be the release of education costs from the property tax base. Local autonomy of school boards need not necessarily be diminished by this method.

There has been a trend toward a higher percentage of education costs being borne by the province over the past ten years. This does not appear to have had any noticeable adverse effect on the local autonomy of school boards in running their affairs.

SUMA RECOMMENDATIONS FOR LOCAL GOVERNMENT

FINANCING IN SASKATCHEWAN - EXECUTIVE SUMMARY

12. (continued)

The fact that property tax rebate system is designed for and attributed to a relief from education burden on property would seem to indicate a recognition that education costs are not a proper charge against property.

It is recommended, therefore, that a higher and higher proportion of education costs be borne by the province until such time as the education cost burden is totally removed from property.

B R I E F

ON

EDUCATION COSTS ON PROPERTY

PRESENTED JOINTLY

BY

S.A.R.M. & S.U.M.A.

TO THE

GOVERNMENT OF SASKATCHEWAN

NOVEMBER 1983

Mr. Premier:

We are pleased to have the opportunity to meet and present to you and your colleagues this paper on an issue that is very vital to us.

For many years now there has been a growing concern by our two Municipal Associations about rising costs of Education against property and business assessment to support the fiscal requirements of that Education system. We sincerely believe that the heavy imposition of Education levies against property and business is an unfair and inequitable method for substantially financing Education which is, after all, a Provincial responsibility.

We have prepared this brief on a joint basis as two Associations representing virtually all Municipal Government throughout the Province to impress upon you the seriousness of this situation and to indicate to you the reasons why we think a change is needed, some alternatives to the present system that you might consider, and the benefits that we believe can be derived resulting from changes being made in the current system of Education financing.

We have no desire to weaken the present school board structure, but rather to suggest that there are alternative methods of financing Education without taking away from local autonomy while at the same time maintaining the school board system.

A REASONS WHY THE SYSTEM OF FINANCING EDUCATION SHOULD BE RE-STRUCTURED

1. The present system has been in effect for over 75 years and needs to be re-examined. Needs and circumstances have changed and are continually changing. Public education ceased to be a purely local matter the day universal compulsory education was established.

Constitutionally, Education is a Provincial responsibility. Provincial law requires that children go to school and that a basic standard of education must be available to all. The Province determines those standards and requires that every Board of Education provide at least that level of education.

In the days of the little red school house, a tax on property to support the school district was as fair a tax on local people as chould have been devised at that time, for the local school board had a great deal of autonomy in teachers salaries and curriculum, and could effectively control its costs in relation to the standard of education it wished to maintain.

Today local property taxpayers do not have control of total education costs. The majority of education costs are controlled by the Province, i.e. Provincial bargaining, transportation policy.

2. Preservation of local autonomy is given by legislation and can be enhanced by Provincial funding provided unconditionally, or by providing trustees with other sources of revenue, or both.

The autonomy given to school boards, hospital boards, municipal councils, etc., comes to them through Provincial Legislation. That Legislation can be very generous or very restrictive in the matter of local autonomy, depending on the point of view of the legislators and has very little to do with the local boards source of revenue. A good example of this was demonstrated a few years ago when school boards lost their exclusive right to set teachers salaries. The Provincial Government stepped in and for all practical purposes took over. School boards lost this very important part of their autonomy and it had absolutely nothing to do with where they got their money. If

the Province were to return the right to set teacher salaries to the local level, thereby returning autonomy, it would still bear no relationship to school boards sources or revenue.

The responsibility of maintaining and improving the local autonomy of school boards in Saskatchewan should rest with all citizens, and should not be saddled on the backs of property owners.

3. Land and business assessment inequities lead to an inequitable taxation system.

An implement dealer and a dentist could earn the same amount of income in a year, yet the very nature of each business dictates that the dealer requires a substantial amount of land on which to operate, while the dentist requires very little land for his operations.

The amount of property tax and business tax borne by each business could be disproportionate in relation to the amount of income earned by each operation.

4. The lack of consistency and currency of the assessment system has led to an inequitable imposition of the tax burden for education purposes as between:

a.) Urban and Rural Municipalities

Urban property is assessed on a measure of construction costs, market value and services. Rural (farm land) property assessment is based on average market value 1961 to 1970 and related to productivity. <u>There is no way of relating the assessment of urbans to the assessment of rurals</u> and there is no way of achieving equity of taxation for education.

b.) Property classes, i.e. Residential, Commercial, Industrial.

Recent general assessments in many Urbans has resulted in fantastic increases for commercial and industrial properties in relation to the increases in residential assessments. One can only assume that either the rules for assessing changed drastically for commercial and industrial lands or the assessment on residential properties has been kept relatively current while assessment on the commercials and industrials has not. This has necessitated a "catch-up" type of situation.

5. Burden of education tax should not be imposed on only property owners.

There are many residents of this Province who do not pay their fair share of the cost of education. This includes apartment dwellers, boarders, wage earners where several live in the same house, and businessmen who do not own property.

One only has to look around our cities to find hundreds of apartments of various sizes. Let's take for example a highrise containing 90 suites. That highrise is assessed on some measure of market value. Now compare this highrise to several blocks in a city of 90 individual homes. The survey that we took for our study on property tax has indicated that the people in those 90 homes will pay three times or more for education on a per capita basis than what the people living in apartments will pay through their rent. There is no logical reason why these people, just because they chose to live in apartments, should pay less towards our educational system than those people who chose to live in homes.

The incomes of roomers and boarders or additional family members, all of whom have the right to elect school trustees, living in one home do not contribute to the cost of education. There are many business people who operate from their homes who do not pay a tax for education as do business people who own buildings out of which to operate. Examples: plumbers, carpenters, electricians, cement contractors and sales people such as Amway, Avon, insurance salesmen, etc.

This is proof positive that there is no relationship between property and education for taxing purposes.

6. Education is a service to people not to property.

   It is people who benefit from education. Some more than others. Educationalists suggest, and statistics will support, that better educated people will generally earn more and should pay more towards education. (Appendix I)

7. Individuals are entitled to a basic level of education no matter where they are located or what the local financial condition may be. Responsibility for providing this level lies with the Province.

8. The mobility of individuals results in a very high proportion of our population not contributing back directly into the community or the Province that has borne the cost of their education.

   Under the present system a person who receives his education at the expense of property owners in one locality may earn his livelihood and make his contribution as a property owner in another locality. With total Provincial funding of education all will contribute to the education system regardless of where they live in the Province.

The Federal Government recognizes this mobility practice by contributing financially through each Province to the University system in Canada regardless of location of the Universities. Individuals will attend the University of his/her choice and generally seek employment anywhere in Canada. The revenues of the Federal Government are resource and income related.

9. The principle of one order of Government (Local) imposing a tax, and the other order of Government (Provincial) rebating this tax in recognition of the high cost burden of education on property is not very logical or economical. The Property Improvement Grant could be used as one means of removing Education costs from property.

10. The Province recognized the high burden of education cost and their responsibility when they introduced the E & H tax initially, The original purpose for imposition of this tax seems to have been lost. This concept has merit and should be reconsidered. A portion of this tax should be used to support education.

11. The present method of financing education permits the Province to shift the burden of education cost to the property taxpayer using the school boards as the scapegoat. The percentage of increase in contribution by the Province to education has fallen behind the percentage of increase in the cost of education, particularly in recent years.

12. Municipal councils do not have absolute control of local taxation though they are subject to criticism as though they did have total control.

13. Municipalities always find themselves having to cut back their requirements in favour of educational requirements.

Down through the years municipal councils have often had to cut back on their budget requirements from the property tax because school mill rates have come in excessively high. This has caused Municipal Governments to effectively lose their autonomy to school boards, asthey watch school requirements take precedence over council priorities. This situation is very often caused by insufficient support to education by the Province.

14. Placing the burden of education costs on property does not recognize the "ability to pay" principle.

For example:
(a) A farmer's ability to pay is not related to property tax but is reliant on several factors such as weather conditions, yield of crop, price of the crop, cost of inputs such as fertilizer, gas and oil, and the cost of machinery. Some years his ability to pay is good while other years it simply is not there.

(b) To own a home is normally a measure of need based on family size rather than ability to pay. In today's society home ownership is quite often more of a measure of ability to borrow than it is of ability to pay, or the ability of a parent to make the down payment on a house on behalf of an offspring, or a farmer to assist his child to purchase land.

B ALTERNATIVES THAT SHOULD BE CONSIDERED IN THE PROVINCE

1. Levy a percentage against the basic income of all citizens to support education. (Appendix I)

2. Financial resources could be made available as derived from a personal income tax base contributed to by the majority of people and which reflects the ability to contribute.

3. Corporate income tax is another source of funds to direct toward education on the basis of "ability to pay" as a direct benefactor of a sound and responsive education system.

   Business and industry depend on a steady stream of young people from our educational institutions to continue and expand their operations. The fact that business and industry make a profit on the educational background of their employees is easy to understand and needs no explanation.

4. Revenues derived from sales taxes or royalties from resource development should be an education financing source based on the premise that resource development is a benefactor of the product of the education system.

   Here we are referring to oil, potash, timber, uranium, natural gas, etc. What better place to spend the revenue from the resources that we are fortunate to have in this Province than on our most important resource of all -- our young people.

5. Use of education and health tax revenues levied (estimated 1983-84 $359,000,000.) by the Province be directed solely to help in support of these two vital purposes. Today the revenues from this tax have become a part of the general Provincial revenue and appear to have lost their specific purpose for which the tax was originally imposed.

6. In 1983-84 it is estimated that property will contribute approximately $250,000,000. to help in the financing of education throughout the Province. Time and again when the subject of total financing of education by the Province is discussed the question is raised about where they would obtain the revenue to support the policy of total Provincial financing of education.

Rural Revenue Sharing....	1983-84....	$ 44,295,000.
Urban Revenue Sharing....	1983-84....	62,068,000.
Property Tax Rebates.....	1983-84....	83,350,000.
1% point of E&H Tax.....	1983-84....	63,000,000.
		$252,713,000.

We have set out above some suggested sources of revenue that might be considered when addressing this issue.

7. In any of the alternatives outlined above, if the Province commits itself to earmark certain taxation levies for education, it is clearly understood that municipalities and school boards must accept responsibility for the tax imposition and publicly show its support and acceptance of that responsibility for such tax levies.

C BENEFITS DERIVED FROM A CHANGE FROM TAXING PROPERTY FOR EDUCATION INCLUDE:

1. School boards would have a dedicated tax base for their purposes that could be adjusted to meet their needs.

2. With a sound and flexible tax base dedicated to education and with the necessary amendments to the School Act, school authorities at the Local and Provincial level could have far more autonomy than they have now. This autonomy, of course, would have to be provided through legislation just as autonomy of any form of Local Government is legislated now.

3. The property tax would become a dedicated tax for municipal services. The tax levy on property within a local municipal jurisdiction would be directly related to the demands placed on that Local Government by the ratepayers of that community. Such demands on one jurisdiction would not affect another jurisdiction as the case is now with education authorities using the property tax.

4. Education is a benefit to our society as a whole and everyone in our society would be contributing to our educational system on a more equitable and logical basis.

5. Assessment manual procedures could be tuned-in more effectively to meet the needs of the different kinds of Local Governments we have in this Province because they would not be required to strive for that elusive equity that is required when more than one Local Government jurisdiction with different property basis is being taxed for a common service such as education.

6. When property taxes pay for municipal services, only then consideration could be given to the assessment of farm buildings, which in turn might help to solve the growing problem of assessment of small holdings in rural municipalities.

7. There are a multitude of business operations in rural municipalities that are not being taxed via property tax or business tax at the present time, and these too could be brought under equitable taxing policies much easier. (i.e. market gardens, irrigated land, turkey farms, chicken farms, air spray operators, business enterprises of numerous kinds, etc.)

8. Studies show that rural people are paying on a per capita basis three times that of their urban counterpart for education. Urban statistics show that home owners are paying three times that of the average apartment dweller towards the cost of education. The businessmen in our urban centres are paying on their business and on their residence while salaried people only pay towards education on their homes, be they large or small.

   On the basis of income the foregoing may, or may not, be fair but we can be assured it is grossly unfair in the great majority of cases.

   These inequities will be rectified by taking the cost of education off property.

9. The school grants formula leans heavily on assessment and because assessments are not equitable it follows that school grants cannot be deemed to be equitable.

10. The present system of financing education is grossly unfair. By removing the cost of education from property and financing it from other more equitable sources we can lend credibility to the financing of our education system.

Thank you for considering the proposals put forward in this paper. We are anxious for you to give your immediate and earnest thought to the matters identified and we are certainly most willing to discuss this vital issue with you.

RESPECTFULLY SUBMITTED,

CHARLES PHELPS, PRESIDENT, SARM
HERB TAYLOR, PRESIDENT, SUMA

APPENDIX I

The idea of a tax on basic income is the belief that in our modern society there is a direct relationship between our standard of education and the dollars earned by every individual as salary, and by every business and industry as profit.

Let us look at the salary worker for a minute. It is a sad fact, but true, that one who is in the labour force of our Country, who does not have an adequate educational background, is at the bottom of the salary scale - earning possibly $8,000. or $9,000. per year

Then we have the average wage earner, He will have highschool education and possibly some technical training. His salary would be $15,000. to $18,000. per year.

University graduates can look for salaries of $20,000. to $30,000. per year, depending on their line of work and the demand for their services.

There are persons classified as self-employed - usually professionals - whose earnings could, and do, go as high as $100,000. per year on an average.

The number of dollars earned by individuals in each of the groups just mentioned has a direct relationship to the educational background each has been fortunate enough to attain. Much of this educational background has been provided at the expense of the taxpayers, primarily the property taxpayers, many of whom do not have the standard of education they are now providing for others.

Property tax does not respect a person's ability to pay. It is possible, and very probable, that wage earners making $9,000. will pay as much in property tax on their living accommodations as does a wage earner making $100,000. Or putting it another way, a taxpayer earning $9,000. a year is contributing to a sophisticated educational system, becoming more costly each year, without having a ghost of a chance to benefit from that system. In fact, by comparison, as the standards of education improve, he slips farther and

farther behind the new standards of living as they are set.

Under our suggested system, a wage earner making $9,000. per year would pay $90. for each 1% of tax levied, while the person making $100,000. would pay $1,000. for each 1% of tax levied. To offset this there would be no property tax, no sales tax and no income tax for educational purposes

The concept simply means that every wage earner receives a direct benefit from his educational background - that his ability to earn depends on his education, and that he should repay or contribute to our eductional institutions in a manner that bears a direct relationship to the benefit he is receiving.

Now let us look at a farmer. While his academic educational standard may or may not be high, he is working in a highly industrialized and competitive business. Someone else's educational background contributes to the development of the combine, the tractor and other specialized tools of his trade, while other people with special training develop chemicals, grain varieties, etc. A farmer then, uses his own educational background, but he also uses the educational background of others to make his living.

Our proposal points out that business and industry depend on a steady stream of young people from our educational institutions to continue and expand their operations. The fact that business and industry make a profit on the educational background of their employees is easy to understand and needs no explanation.

We are simply saying this - The source of every dollar earned in our society can be traced back to our institutions of learning. Is it not reasonable then, to expect every wage earner, every business and every industry to contribute to the cost of our educational system in accordance with the benefits they receive?

There are many people in our society who are not paying their fair share of the cost of education at the present time.

THE NEW PARTNERSHIP

(Policies for Reforming Municipal - Provincial Fiscal Relationships in Alberta

(PR-4): Implementation of a Local Income Tax

The autonomy and revenue base of Alberta municipalities should be strengthened by the adoption of a municipal tax on personal income. The tax should display the following features:

(1) a common collection system shared with the provincial and federal governments;

(2) a nominal flat rate of taxation after allowance has been made for certain deductions;

(3) flexible rate restructures established by Municipalities;

(4) a revenue stabilization fund; and

(5) shared access with local education authorities.

I. EXECUTIVE SUMMARY

INTRODUCTION

Public works facilities such as sewer, water, street systems, bridges, parks, community centres and theatres are collectively referred to as urban infrastructure. These facilities are important to the functioning of urban areas and some forms of infrastructure such as sewer, water, roads and bridges are essential to the very existence of urban areas. Without adequate sewer and water systems, sanitation and disease control are impossible in larger cities. Without adequate road and bridge sytems, necessary travel for work, business and other purposes is impeded, delivery of goods is made inefficient and police and fire control are very difficult.

A direct relationship exists between the condition of urban infrastructure and the economic health of the urban area. Industry and commerce in urban areas cannot be efficient without good urban infrastructure. Clearly, it is important not only to provide adequate infrastructure to meet increasing needs but also, once it has been provided, to maintain it adequately and to replace it when it is worn out.

THE PROBLEM

In the last few decades, Canada has undergone rapid urbanization. This has necessitated a significant expansion of urban infrastructure and much of it was provided in a short period of time. It will reach the end of its life in a similarly compressed time. Until the 1970's, the maintenance of these facilities was acceptable, partly because of good economic conditions in Canada and partly because so many facilities were new. In the 1970's, high inflation and rapidly growing costs resulted in increasing resistance by taxpayers to rising taxes. At the same time, a growing array of new services designed to improve the quality of life was provided by government, adding to the tax burden.

High interest rates in the late 1970's and early 1980's resulted in a growing reluctance to borrow money which placed a severe load on direct revenue taxation. In addition, growing environmental concerns and increasing public involvement have made reconstruction more difficult and more expensive. The recent recession has compounded the problem.

Although the primary financial responsibility for urban infrastructure has been that of the local governments, Provincial and Federal Government funding has in the past assisted with managing the burden. In recent years, Federal programs have been severely cut and Provincial programs are also currently subject to severe restraint. Thus, the burden on local governments has been increased.

A combination of these factors and others has resulted in a deferral of necessary work on infrastructure and a growing backlog of maintenance and replacement work.

EFFECTS OF INADEQUATE INFRASTRUCTURE

The most pressing concern is that, if the backlog of necessary work on the maintenance, repair and replacement of Canadian urban infrastructure is permitted to grow, a point may be reached where unreasonably high financing will be required to bring the infrastructure up to acceptable levels. Increasing congestion due to inadequate infrastructure wastes expensive fuel, increases

accidents and creates a significant drain on our economy. The efficiency and competitiveness of industry and commerce in our urban areas are dependent on adequate infrastructure. Under congested conditions, trucking and goods movement can become very expensive. Industry and commerce are also dependent on proper water supply and sewerage services. Thus, significant losses to our society are resulting from inadequate infrastructure.

Another economic loss is that resulting from the current high unemployment in Canada. Highly labour intensive works on urban infrastructure could not only usefully employ many people but, at the same time, reconstruct our essential infrastructure. The combination of the foregoing can contribute to the economic recovery of Canada.

PUBLIC AWARENESS

The problem outlined above is of international scope. In the U.S.A., there has been very considerable media coverage of the problem. A large number of studies have identified the extent of the problem, its causes and, more recently, possible solutions. Much has been learned from these studies and this information is contained in the main report. Since there are many similarities between Canadian and American cities, it is useful to note what was learned in these studies. The U.S. reports describe a deteriorating infrastructure in virtually all areas studied. Reasons identified are similar to those described above. The U.S. studies have identified roads and sidewalks as being in the greatest need of repair (about 70% of responses) and parks, recreational and community social facilities as being in relatively good condition (about 60% of responses). Other types of infrastructure fall between these extremes. A general conclusion of the studies is that responsibility for urban infrastructure must continue to be largely that of local government. However, assistance from other levels of government is required to return the infrastructure to acceptable condition.

Not only has the problem been clearly identified in the U.S.A., but remedial measures are already underway. A bill has been approved by President Reagan providing for highway user charges, the proceeds of which will be ear-marked for highway repair and replacement. Various other bills are either being considered or drafted by committees such as the House Public Works Subcommittee on Economic Development. These bills are designed to provide loans and grants to communities which are unable to cope with the problem themselves. This process has been underway for about two years.

In Canada, there is relatively less public awareness of the problem. Although one of the studies noted above was an international study and did include Canadian cities and the Chairman of the Technical Committee which is producing this current Canadian report was a member of the international task force which produced the report "Revenue Shortfall" and also participated in the European seminar on infrastructure problems, there has been less involvement of Canadian officials in infrastructure research. The Canadian Construction Association has carried out studies on infrastructure deficiencies in some rural areas and published reports on these. To date, however, there has not been a national study in Canada comparable with those in the U.S.A. Our understanding of the problem has, therefore, been incomplete and public awareness considerably less than in the U.S.A.

FEDERATION OF CANADIAN MUNICIPALITIES TASK FORCE ON INFRASTRUCTURE

In 1983, the FCM recognized that an infrastructure problem existed in Canada and established a Canadian Task Force, Chaired by Mayor M. Harcourt of Vancouver, to deal with the matter. The purpose of the Task Force was to ascertain the physical status of urban infrastructure, to determine funding adequacy, to develop policies to correct any inadequacies, and to outline programs which would correct the problem. Detailed terms of reference are set out in the main report.

To assist the Task Force (a political body comprised of elected officials), a Technical Committee of senior technical officials responsible for urban infrastructure in Canadian municipalities has been formed. This technical Committee is listed on the inside front cover (W.H. Curtis, Chairman). Membership has been made up of one from Maritimes, two from Quebec, two from Ontario, and one each from the western provinces. Three of the members are from smaller municipalities. Also represented on the Committee are members from the Federation of Canadian Municipalities and the University of Toronto. The Technical Committee reviewed other studies and decided that a Canadian survey and analysis of the findings were necessary to assist in defining the Canadian problem concisely.

THE CANADIAN STUDY

This report describes Phase I of a Canadian Urban Infrastructure Study covering FCM members, other municipalities and provincial and federal departments involved in urban infrastructure. It describes the Canadian survey, it defines the problems, suggests causes and suggests what must be done to correct the problems. Phase I was carried out between January and May of 1984 and will be presented to the Annual FCM meeting in Winnipeg in June, 1984. Of necessity, it is a preliminary assessment only.

Phase II, assuming the FCM decides to proceed further, will recommend specific policies and begin the difficult task of establishing actual programs, in cooperation with all levels of government, to bring the physical infrastructure back to acceptable levels. It will also refine some of the information necessary to determine costs of reconstructing the infrastructure. The Phase II report should be completed in time for the 1985 Annual FCM meeting, if an early start is made after the 1984 FCM meeting.

LIMITATIONS OF THE STUDY

There are many forms of urban infrastructure. Such facilities as roads, bridges, sewer and water systems, parks and mass transportation are generally termed physical infrastructure. Public health, education, fire safety, and other functions of this type are termed social infrastructure. The American studies have concentrated almost entirely on the physical infrastructure and particularly on sewer, water, roads and bridges as these are in the greatest need of attention. These forms are also essential to the survival of urban areas. Surveys have shown that other forms of infrastructure, although very important to livability of urban areas, have not deteriorated to the same degree. For these reasons, emphasis has been placed on correcting the most critical problems first.

The Canadian study has determined the relative condition of most forms of infrastructure, including physical and social forms. The Canadian results are very similar to those from other studies - roads, bridges, sewer and water

systems are in the greatest need of attention. This Canadian study has also determined costs to repair and replace to adequate levels the sewer, water, road and bridge forms of infrastructure. It was not possible to do this for the other forms and this constitutes a limitation of this study.

Another limitation is that only urban infrastructure has been examined. Other studies are in the process of looking at rural municipal, provincial and federal infrastructure which are beyond the scope of this study as are transit and communications. There is a separate FCM Task Force on transit and on social services.

RESULTS AND CONCLUSIONS OF THE CANADIAN STUDY

Survey Response

Two surveys were conducted in the past few months. The first, a pre-survey of Mayors was conducted to determine whether they felt a problem existed and, if so, whether they would participate in a study. Questionnaires were sent to 245 FCM Mayors. 47 of these responded. A large majority of the respondents felt a problem existed and that their municipalities would participate. Most respondents felt that funding was inadequate to meet their needs and grants from other levels of government were required to make up the shortfall. The Mayors also identified roads as being the urban infrastructure most in need of attention, followed by sewers. Generally, the results correspond to those received in the national survey described below.

A national survey was then make of all FCM municipalities, some other municipalities as well as provincial ministries responsible for urban infrastructure in some areas. The questionnaires were directed, this time, to City Managers who, in turn, circulated the questionnaires to appropriate levels. From a sample of 235 municipal areas, 80 responses have been received. Others continue to come in and it is probable the response would have been better if time allotted had not, of necessity, been so short. The response is excellent for cities over 400,000 population as nearly all are represented. The response in the 100,000 to 400,000 population group of over 64% is good. For the group below 100,000 population, the response is less favourable being 17% of the sample. The results from municipalities of under 10,000 population are not presented in this report because of the low response rate (10%) and because they are rural in nature and have different problems. A separate addendum is available on the results from small communities.

Within the responses, not all questions were answered and, therefore, some questions are supported by less data than others. More information on validity of results is contained in the main report. In general, the Technical Committee has concluded that the data can be considered adequate for the generalized purposes required for this report.

Condition of Canadian Urban Infrastructure

The majority of survey responses indicate that an infrastructure problem exists in Canadian urban areas. This supports the conclusions of the Mayors' pre-survey. Different types of infrastructure are in different states of adequacy. This is illustrated in Diagram 1.

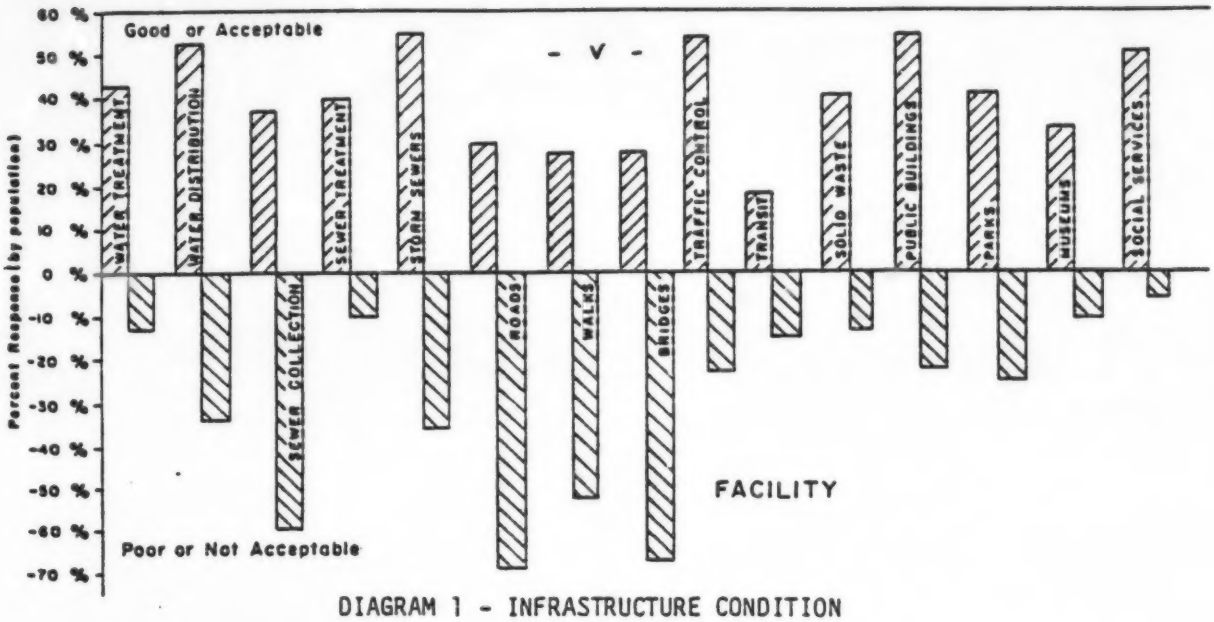

DIAGRAM 1 - INFRASTRUCTURE CONDITION

As with the Mayors' pre-survey, roads are identified as being in the greatest need of attention by 70% of respondents. Sidewalks, bridges and sanitary sewage collection systems are also identified as problem areas by the majority of respondents. More than half of respondents felt public buildings, water distribution sytems, traffic control facilities and storm sewer systems were in good or acceptable condition and the majority of respondents felt parks, solid waste facilities, water treatment systems and social service facilities such as day-care centres were in good or acceptable condition. It should be noted that Diagram 1 pertains to condition of existing facilities. The survey did not attempt to determine whether there was a need for more roads or more social service facilities.

For the essential sewer, water, roads and bridge facilities only, the survey provided information as to what funding is required to bring these facilities up to acceptable condition levels. $598 per capita is required on the average. If a rebuilding program of 10 years is assumed, $60 per capita would be required each year for 10 years. This compares to a 1983 average per capita capital expenditure on public works of $99 per year and an operating expenditure of $137 per year. Thus, a very significant expenditure increase would have to be made over the 10 year period to bring these facilities up to acceptable levels. It is noted that over this 10 year period there will be deterioration of facilities which are now in acceptable condition and even further funding may be required for upgrading.

Diagram 2 shows the required expenditures for the various types of facilities surveyed. Again, by far the greatest need is in the roads category with $249 of the $598 per capita being required for this purpose. To help ascertain the urgency of developing problems, the survey requested information on trends. In this regard, roads, and walks were again identified as the forms of infrastructure which are deteriorating in most

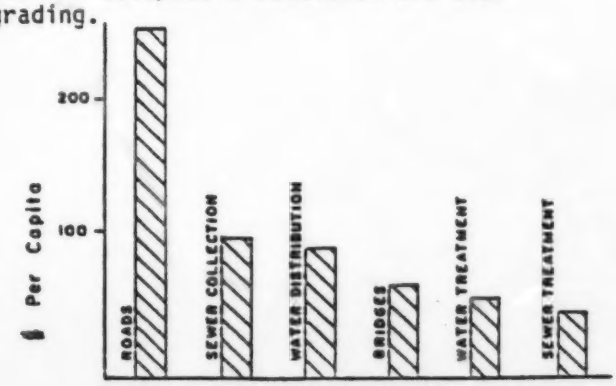

DIAGRAM 2-$ PER CAPITA TO CORRECT

municipalities. About half of the respondents indicated that water distribution and sewer systems were improving in condition and a majority of respondents felt bridges, traffic control facilities, transit, solid waste facilities, public buildings, theatres, museums, libraries, day-care centres, etc. were improving in condition.

The survey also requested information for the years 1968, 1976 and 1983 on claims and on emergency repairs. In this regard, survey results do not establish a trend in claims. The number of emergency repairs in the roads and water categories have increased in this time period. Road emergency repairs are rising the most rapidly. Water system breaks are rising at a lower rate.

The results of the condition survey are comparable with those obtained in the U.S. surveys and also with the Canadian Mayors' pre-survey. They indicate that a significant problem with urban infrastructure exists in Canada and that there is a revenue shortfall to correct the situation which will be difficult to overcome. The condition of facilities in the poorest categories is deteriorating most rapidly.

Funding

The major responsibility for funding urban infrastructure work is that of local government. User fees provided most of the funding required for water systems and sewage treatment (about 80%). General tax revenues are the largest source of funding for roads (about 60%) and bridges (about 50%). Provincial funding for roads and bridges is the second largest source, providing approximately one-quarter of the funding. Survey results show that Federal funding is almost non- existent except for bridges (about 5%) (see Diagram 3).

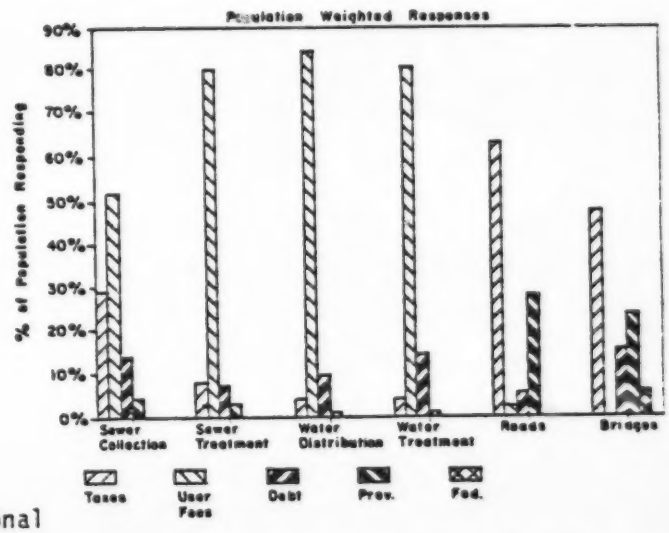

DIAGRAM 3-SOURCES OF REVENUE

The Mayors' pre-survey indicates that funding is inadequate. The national survey supports this conclusion and shows that the degree of underfunding in such areas as roads, bridges, sewer and water facilities is significant. The survey shows that, in the period 1968 to 1983, there has been a decrease in public works budgets on a per capita basis in terms of constant dollars when an increase was necessary to cope with growing need resulting from rising emergency repairs and aging of the facilities.

The Technical Committee has found that in the western and eastern regions of Canada, there is a growing trend towards "pay-as-you-go" financing. This trend began during periods of very high interest rates when borrowing was very unattractive. Under today's restraint conditions, there is still a tendency in these areas to avoid borrowing. In Ontario and most of the prairies, pay-as-you-go has not been a problem. When borrowing is curtailed, additional load is placed on direct taxation. In view of current extreme restraints, insufficient funding is being provided from direct taxation to meet

infrastructure requirements. There exist in Canada limitations to the amount of borrowing permitted as a proportion of total budgets. The Technical Committee has found that this limitation is not a problem in most regions of Canada (in the U.S., these restrictions are a significant problem). The Mayors' pre-survey indicated that in all parts of Canada there is a general tendency at the political level to "pay-as-you-go". The Technical Committee concluded that, if this trend persists and if borrowing is further restricted, it will be very difficult to cope with the rising backlog of infrastructure work.

In summary, funding at the local government level has not been sufficient to provide for necessary infrastructure work. As a result, a backlog of such work is growing and additional funding will have to be provided if this trend is to be halted and remedial measures carried out.

The Technical Committee reviewed the possibility of increasing user charges as a source of funding. It concluded that the possibility existed of increasing user charges in the sewerage, roads and bridges areas. With roads and bridges, this could mean additional taxes on fuel or tolls - both of which are highly unpopular with the public. There is concern with regard to inequity because the direct users of a public works system are not its only beneficiaries as noted in California. Perhaps local improvement procedures, which provide for a portion of the cost being paid by those benefiting, are the most appropriate mechanism for increasing user charges in these areas. Of course, the local government's share of local improvement costs will have to be raised by the local governments.

Federal Government funding programs have been declining over the past 15 years. There has been a tendency to emphasize new construction because Federal programs have largely been geared towards reducing unemployment. Additional employment has been equated to new works rather than maintenance and reconstruction works - presumably because maintenance of existing infrastructure is an ongoing function and new jobs would not result. With significant layoffs of local government staff in various parts of Canada, this is no longer the case and Federal funding for maintenance and replacement could create additional jobs.

Another problem with Federal programs which the Technical Committee identified was the large number of restrictions and conditions which had to be met - again largely for employment creation reasons. These restrictions have tended to make work under these programs less efficient and more expensive. If Federal programs were to be created to deal with the infrastructure problem at this time, regulations should be altered to make them more effective.

In recent years, the Federal programs have been significantly reduced to the point where Federal assistance for infrastructure work is now very limited. Even though Federal contributions were never very large in relation to local government contributions towards infrastructure work, the reduction of Federal programs, when added to the inadequacy of local government funding, has resulted in a worsening of the revenue shortfall situation. In the U.S.A., remedial measures currently being implemented involve Federal government participation. Significant steps in this direction have already been taken and others are in preparation. The Technical Committee has found that similar steps are required in Canada to assist local government in solving the infrastructure problem. The Committee recognizes that intergovernmental relations in Canada between the Federal, Provincial and local government levels are different and this will have to be recognized in establishing cooperative programs between the three levels of government for the purpose of dealing with revenue shortfall.

Causes of Infrastructure Decline

The survey lists five causes of infrastructure decline and provides for others. Results are as shown in Diagram 4. As expected funding shortage was identified as the leading cause by over 90% of respondents. Delays and cost increases resulting from excessive public involvement, red tape and political inaction are very significant factors as well and these are increasing. The Technical Committee, in reviewing the causes of decline, recognized that growing environmental and increasing local area concerns must be accommodated. Some suggestions for improvement in this regard are that public involvement be incorporated early in the process, and that officials become more skilled in dealing with these impediments.

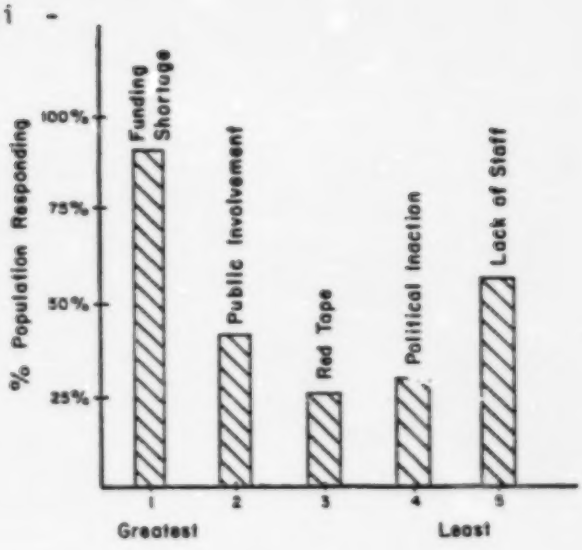

DIAGRAM 4-DEGREE OF IMPEDIMENT

Although lack of staff for problem analysis was identified as the least significant cause, the Technical Committee concluded from the survey response that it was a significant problem, particularly in smaller municipalities. It was apparent that the lower survey response from the smaller municipalities was due to inadequate information retrieval systems and inability to analyze available information. The Committee concluded that improved management systems would be one objective which could assist in coping with the infrastructure problem. To this end, the Committee concluded that increased interaction of officials in Canada was desirable - perhaps through strengthened national associations.

Comparison with the U.S. and Europe

This study shows that Canadian urban areas are faced with similar problems to those identified in U.S. studies. The revenue shortfall at the local government level is perhaps somewhat less than in the U.S.A. but, on the other hand, the decrease in Federal assistance is more severe. Studies in both the U.S.A. and Canada have identified roads as having the greatest need of attention. There are similarities for most other types of infrastructure. The U.S. has recognized the problem sooner and are already beginning to deal with it. There is considerably greater public awareness of the problem in the U.S. and legislation to increase funding for infrastructure work has already been passed or is in the process. Some of the solutions being implemented in the U.S., such as Federal government funding programs to assist municipalities in difficulty, would be applicable in Canada. In both countries, it is clear that local governments need additional revenue sources and assistance in order to cope with the backlog of work and prevent further deterioration of the infrastructure.

In the spring of 1984 the American Public Works Association, the U.S. National League of Cities and the Federation of Canadian Municipalities sponsored a series of seminars on urban infrastructure in various European cities. These have shown that existing European urban infrastructure is in relatively acceptable condition with some exceptions. Sewer and waterworks are financed largely from user charges which until recently have been adequate. Central governments are very significantly involved in urban infrastructure works through grants and cost sharing arrangements with local governments. One price of this greater central government funding is considerably less autonomy of local government in priority setting and decision making.

Recently, European central governments have begun to control user rates and restrict grants. Local government funding is inadequate and maintenance and replacement works are now being deferred. A backlog of work is starting to build up in urban areas but this is not serious yet.

In an effort to reduce the burden on government, there is a trend towards privatization. In England private housing is increasing dramatically. Similar changes are occuring in France and Germany. Some European municipalities use "innovative" financing methods. One of these is municipal involvement in private enterprises such as banks and mines. Profits from these are used to offset deficits in government functions. The appendix contains further information on the European situation.

In both Europe and the USA work is in progess on setting service level standards. Canada should join in this effort.

CONCLUSIONS AND RECOMMENDATIONS

On the basis of previous studies, comparisons with the US and European Countries, its own experience, and the survey results outlined in this report, the Technical Committee on Canadian Urban Infrastructure has reached the following conclusions and makes the following recommendations:

1) A significant decline has occurred in the condition of infrastructure in Canadian urban areas. Steps should be taken to halt that trend.

2) The costs to bring the most seriously deteriorated forms of infrastructure (sewer, water, road and bridge systems) back to acceptable levels are high. Even when spread over a 10 year recovery period, these costs will represent an increase in current public works budgets of about 25%.

3) Additional local government funding sources should be found to help solve the revenue shortfall problem identified.

4) To raise the required funding is beyond the ability of many local governments and some assistance from other levels of government is required.

5) Better information systems should be developed, particularly in smaller municipalities, to permit better management of infrastructure systems and more effective use of available funding. Lack of information was a frequent reason given for not completing the survey questionnaire.

6) Greater interchange of information between Canadian municipal officials should be achieved through strengthened national associations and the publication of manuals on management practices.

7) To achieve a greater degree of national consistency in levels of infrastructure service, work should begin on the setting of service standards. This should be done in concert with the USA and European countries who are currently working on these. This is a long term effort and rebuilding of infrastructure should not await its completion.

8) Methods should be investigated which would reduce waste and excess costs due to delays and other impediments to reconstruction and maintenance of infrastructure.

9) Without jeopardizing the provision of new facilities needed to meet growth, a greater emphasis should be placed on maintenance and reconstruction as opposed to new construction, especially in Federal programs which might be developed in the future. This would extend the life of existing facilities.

10) Local governments should re-examine priorities so that the most essential basic services are emphasized during times of severe restraint. If this is not done, the economic health of our urban areas may be jeopardized and, with it, the other services as well.

11) Policies should be set by the FCM which could form the foundation and guidelines for recovery. The FCM should direct its Task Force on Urban Infrastructure, through its Technical Committee, to outline specific policies.

12) Programs should be established to begin implementing these policies and to deal with the reconstruction of the deteriorated forms of infrastructure over the next 10 year period.

13) An intergovernmental partnership should be established which would bring the combined and cooperative efforts of the three levels of government to the solution of the infrastructure problem. The opportunity exists to reconstruct our urban infrastructure, to make our urban areas more competitive, to strengthen Canada's economic recovery and, at the same time, to employ large numbers of Canadians in these labour intensive works.

14) National priorities may need adjustment to recognize that Canada is becoming an increasingly urbanized nation. It is in our urban areas that most Canadians live and it is here that our greatest problems are developing.

15) Public awareness of the infrastructure problem should be increased to obtain public support for necessary remedial measures through the wide dissemination of this report and other means available to the FCM.

16) The FCM should direct its Task Force, through its Technical Committee, to proceed with Phase II of this study in order to crystallize policies and outline programs necessary for corrective action in cooperation with other levels of government where necessary.

17) Estimated costs of Phase II are $50,000. Funding should be provided for this purpose.

CITY OF REGINA

1984 PROVINCIAL GRANTS

Capital Budget

Conditional Grants		% of Total	
Transit Bus Purchases	$ 533,000	4.2	
Transportation of Handicapped Bus Purchases	68,000	.5	
Special Water Grant	2,466,000	19.5	
Recreation Cultural Facilities Grant	683,000	5.4	
Urban Assistance	4,099,000	32.5	
Rail Relocation	4,765,000	37.9	
	$12,614,000	100.00	77.0